

## Essential Utilities

## All Aboard: Upgrading to Buy as WTRG Plan More than Just Holds Water

Rating Change: BUY | PO: 52.00 USD | Price: 47.27 USD

## Execution Remains Strong Despite Pandemic Backdrop

Following a strong 2Q and mgmt. affirmation of guide, we are jumping back in to WTRG and upgrading from Neutral to Buy. We see shares as poised to outperform with consistent quarterly execution to drive EPS of \$1.53-\$1.58 this year and the 5-7% EPS CAGR through '22, and stress incremental upside opportunities as acquisitions continue to materialize across their water footprint (we stress sharp contrast vs. peer AWK who already reflects acquisitions in guide). With favorable transaction legislation now enacted in all eight of their Aqua jurisdictions, we expect water rate base to grow well in excess of the 6-7% outlined through '22: the further municipal budget strain from the ongoing pandemic will likely accelerate consolidation in the industry at an even faster pace - and we expect additional developments over the next several months (after closing two deals already in '20 with four add'l signed agreements translating to ~\$300Mn of rate base & ~\$15Mn of earnings). Meanwhile, the 2,700 miles of pipe replacement at the recently acquired Peoples Gas segment will help drive 8-10% organic rate base through '22 and beyond - while mgmt. benefits from repairs tax treatment at the sub in PA to drive returns without the need for a rate case (with the repairs tax catch up component filed with the commission last Thurs providing even more latitude). With a growing focus on ESG - and mgmt.'s proactive action around PFAs - we see this an underappreciated angle not reflected at the current valuation (particularly vs. peer AWK with an elevated premium). Bottom line, we see shares as poised to re-rate higher given consistent execution, elevated growth prospects, and increasing appreciation for clean quality stories.

## Upgrading to Buy

While our estimates are largely unchanged, we have increasing conviction in mgmt.'s ability to consistently deliver and see the company as a prime beneficiary of further consolidation across the water industry - while the latest filing for the catch up component of Repairs Tax treatment in PA should provide further latitude to stay out of rate cases for the gas segment. After applying slightly higher premiums and marking to market for the latest water and gas multiples (28.1x and 16.3 vs. 26.9x and 15.9x previously), our PO ultimately shifts to \$52 (from \$47 previously). Upgrade to Buy.

## Estimates (Dec)

(US\$)	2018A	2019A	2020E	2021E	2022E
EPS	1.41	1.47	1.56	1.69	1.80
GAAP EPS	1.41	1.47	1.56	1.69	1.83
EPS Change (YoY)	3.7%	4.3%	6.1%	8.3%	6.5%
Consensus EPS (Bloomberg)			1.53	1.66	1.79
DPS	0.86	0.92	0.99	1.06	1.13

## Valuation (Dec)

	2018A	2019A	2020E	2021E	2022E
P/E	33.5x	32.2x	30.3x	28.0x	26.3x
GAAP P/E	33.5x	32.2x	30.3x	28.0x	25.8x
Dividend Yield	1.8%	2.0%	2.1%	2.2%	2.4%
EV / EBITDA*	9.5x	36.6x	20.1x	18.5x	17.2x
Free Cash Flow Yield*	-1.1%	-1.8%	-3.7%	-2.6%	-2.1%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 8.

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Timestamp: 10 August 2020 08:04AM EDT

10 August 2020

## Equity

## Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-2-7	B-1-7
Inv. Rating	NEUTRAL	BUY
Price Obj.	47.00	52.00

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## Stock Data

Price	47.27 USD
Price Objective	52.00 USD
Date Established	10-Aug-2020
Investment Opinion	B-1-7
52-Week Range	30.40 USD - 54.52 USD
Mkt Val (mn) / Shares Out (mn)	11,588 USD / 245.2
Average Daily Value (mn)	42.81 USD
BofA Ticker / Exchange	WTRG / NAS
Bloomberg / Reuters	WTRG US / WTRG.N
ROE (2020E)	8.6%
Net Dbt to Eqty (Dec-2019A)	31.1%

ESG: Environmental Social Governance

PFA: Perfluoroalkoxy Polymer-Chemical Compound

# iQprofile<sup>SM</sup> Essential Utilities

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2018A	2019A	2020E	2021E	2022E
Return on Capital Employed	3.9%	3.5%	5.3%	5.0%	5.1%
Return on Equity	9.7%	8.9%	8.6%	8.2%	8.9%
Operating Margin	38.7%	38.4%	64.5%	66.5%	68.3%
Free Cash Flow	(127)	(212)	(428)	(304)	(246)

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2018A	2019A	2020E	2021E	2022E
Cash Realization Ratio	1.9x	1.3x	1.7x	1.8x	1.7x
Asset Replacement Ratio	3.4x	3.5x	3.1x	2.8x	2.5x
Tax Rate	NM	NM	10.0%	10.0%	10.0%
Net Debt-to-Equity Ratio	127.1%	31.1%	98.4%	106.0%	112.7%
Interest Cover	2.8x	3.1x	3.4x	3.4x	3.4x

## Income Statement Data (Dec)

(US\$ Millions)	2018A	2019A	2020E	2021E	2022E
Sales	835	886	955	1,005	1,053
% Change	3.7%	6.2%	7.7%	5.3%	4.8%
Gross Profit	838	890	1,551	1,656	1,752
% Change	3.5%	6.2%	74.3%	6.8%	5.8%
EBITDA	1,941	504	916	997	1,074
% Change	-86.4%	-74.1%	81.8%	8.8%	7.8%
Net Interest & Other Income	(99)	(100)	(181)	(195)	(215)
Net Income (Adjusted)	192	263	371	402	450
% Change	-19.9%	36.9%	41.2%	8.3%	12.0%

## Free Cash Flow Data (Dec)

(US\$ Millions)	2018A	2019A	2020E	2021E	2022E
Net Income from Cont Operations (GAAP)	192	225	397	431	457
Depreciation & Amortization	147	156	338	371	402
Change in Working Capital	NA	NA	NA	NA	NA
Deferred Taxation Charge	(15)	(10)	(75)	(75)	(75)
Other Adjustments, Net	45	(32)	(38)	(6)	(5)
Capital Expenditure	(496)	(550)	(1,050)	(1,025)	(1,025)
Free Cash Flow	-127	-212	-428	-304	-246
% Change	-31.5%	-66.5%	-102.1%	28.9%	19.2%

## Balance Sheet Data (Dec)

(US\$ Millions)	2018A	2019A	2020E	2021E	2022E
Cash & Equivalents	4	1,869	6	6	7
Trade Receivables	101	108	188	200	212
Other Current Assets	42	36	50	52	54
Property, Plant & Equipment	5,930	6,346	10,657	11,312	11,935
Other Non-Current Assets	887	1,003	1,003	1,003	1,003
Total Assets	6,964	9,362	11,904	12,574	13,211
Short-Term Debt	160	131	126	141	155
Other Current Liabilities	239	188	244	253	261
Long-Term Debt	2,398	2,943	4,597	5,138	5,653
Other Non-Current Liabilities	2,158	2,219	2,144	2,069	1,994
Total Liabilities	4,955	5,481	7,111	7,601	8,063
Total Equity	2,009	3,881	4,793	4,973	5,148
Total Equity & Liabilities	6,964	9,362	11,904	12,574	13,211

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 8.

## Company Sector

Water Utilities

## Company Description

Essential Utilities is a regulated water/gas providing water or wastewater services to 3M customers in the states of PA, OH, TX, IL, NC, NJ, IN, and WV, with PA segment being the largest contributor to the NI - along with a natural gas presence through the recently acquired Peoples Gas providing distribution services to 740,000 customers in PA, WV, and KY.

## Investment Rationale

We are Buy rated on shares of WTRG, seeing shares as poised to re-rate higher given consistent execution, acquisition upside, and increasing conviction around the premium story.

## Stock Data

Average Daily Volume 905,604

## Quarterly Earnings Estimates

	2019	2020
Q1	NA	NA
Q2	NA	NA
Q3	NA	NA
Q4	NA	NA



## Why We're More Constructive Again

We are upgrading shares of WTRG following another consistent quarter of execution by management. Following a large 2Q beat, mgmt. reaffirmed their 2020 EPS of \$1.53-\$1.58 (while peer AWK revised down on COVID impact) and a 5-7% EPS CAGR through '22. We have increasing conviction around mgmt.'s ability to consistently deliver and see upside risk from further acceleration in muni acquisitions (excluded from guidance while already contemplated in the growth plan for AWK). In the near term, resi strength of their portfolio and constructive regulatory treatment (with the March order from the PA PUC boding particularly favorable given their large presence in the state) position the company to navigate pandemic challenges while the growing pipeline of municipal opportunities should provide a long term tailwind for the water biz; meanwhile after electing to implement Repairs Tax for the gas biz in PA (and a catch up filing to amortize capital already spent filed last week), we see a clear runway to drive earned returns for the next several years (Mgmt. noted expectations for the initial filing to drive \$0.08-\$0.12 worth of contribution for the year).

Following the adoption of Fair Market Value legislation in TX and VA, the company now has the constructive legislation in all eight states of their water footprint. We expect this to help further accelerate consolidation in the industry as muni budgets are further flex'd from the crisis - and any further resulting acquisitions would be upside to mgmt.'s latest reaffirmed targets. Despite the more recent adoption in the state, WTRG already announced their first acquisition in TX under the legislation and we perceive more and more acquisitions of muni's to materialize over the next several months across their footprint. Meanwhile, we are less concerned around recent media headlines around the DELCORA acquisition: we don't see meaningful risk to the deal and it remains upside to estimates over time from the currently laid out plan. With the PUC fully accepting the application last week, mgmt. noted expectations to close the transaction in early '21. Overall, we stress \$300Mn+ in rate base opportunities from signed APAs expected to generate ~\$15Mn in earnings that are all upside to the currently laid out plan.

Bottom line, we see upside to the plan given the more conservative approach to guide, and expect shares to rerate higher relative to AWK as investors continue to appreciate the premium story amid consistent management execution.



## EPS Estimates

The exhibit below reflects our latest EPS Estimates. In addition to limited risk to NT numbers (despite some dilution from the expected equity offering) given the defensive nature of their portfolio and constructive regulatory treatment, we see the company as poised to deliver on their 5-7% EPS CAGR – with upside from a likely acceleration in industry consolidation. We continue to model towards the high end of their 5-7% EPS CAGR through '22. With consistency the metrics many in the industry continue to pursue as part of further re-rating opportunities, we see the relative *lack* of outperformance of late despite its track record and its relatively attractive ESG profile make it among the more compelling investments. With prospective EPS growth likely more consistent than earlier trajectory (which proved more 'lumpy' we perceive the outlook as ever more appealing for those seeking a de-risked outlook).

**Table 1: EPS Estimates**

EPS Estimates	2020E	2021E	2022E
PA	\$0.73	\$0.80	\$0.86
OH	\$0.07	\$0.07	\$0.08
IL	\$0.07	\$0.08	\$0.08
TX	\$0.06	\$0.07	\$0.07
NC	\$0.04	\$0.04	\$0.05
Other States	\$0.07	\$0.07	\$0.08
<b>Water Utility</b>	<b>1.04</b>	<b>1.13</b>	<b>1.21</b>
<b>Peoples Gas</b>	<b>0.62</b>	<b>0.67</b>	<b>0.72</b>
Parent & Other	-0.10	-0.11	-0.14
<b>EPS</b>	<b>1.56</b>	<b>1.69</b>	<b>1.80</b>
YoY Growth	6%	9%	6%
<b>Guidance</b>	<b>1.53-1.58</b>		
Fully Diluted Shares O/S	254	254	254
<u>Previous EPS</u>	<u>\$1.56</u>	<u>\$1.69</u>	<u>\$1.80</u>
<b>Consensus</b>	<b>1.53</b>	<b>1.66</b>	<b>1.79</b>
<b>DPS</b>	<b>0.99</b>	<b>1.06</b>	<b>1.13</b>
Payout Ratio	63%	62%	63%

Source: BofA Global Research estimates

## Valuation: Upgrading to Buy with \$52 PO

The exhibit below reflects our latest SOTP after applying the current peer multiples to our valuation: 26.9x for water and 15.9x for gas (vs. 26.9x for water and 15.9x for gas previously). We raise our premiums across the board given particular confidence in management and their consistent ability to deliver, strong municipal acquisition prospects, and an underappreciated ESG angle. Our PO shifts to \$52 (from \$49 previously) and we are upgrading to Buy.

We note shares have notably lagged AWK, which has also consistently executed. We attribute some of this to WTRG's ownership of gas utility: ultimately we view this as quite value accretive and EPS accretive given sharp discrepancy in valuations. The question remains whether investors will value the consolidated entity for a clean(er) story with a carbon profile driven by a gas utility. We already substantially discount the gas utility: we perceive comps for the gas utility itself could well include the likes of ATO among other higher quality avenues.

We perceive management to be exceptionally consistent and focused on executing across a range of opportunities. Numerous acquisition avenues yet to be discovered.



**Table 2: SOTP**

Water Utilities	2022 EPS		P/E Multiple				Equity Value		
		Peer	Prem/Disc	Low	Base	High	Low	Base	High
Peer Water P/E		28.1x							
Group EPS '18-'22 CAGR		8.30%							
1-year forward group Water multiple		30.4x							
<b>Water Utilities</b>									
States	2022E EPS ROE embedded								
PA	\$0.86	10.0%	4.0x	33.4x	34.4x	35.4x	\$29	\$29	\$30
OH	\$0.08	9.4%	2.0x	31.4x	32.4x	33.4x	\$2	\$3	\$3
IL	\$0.08	9.1%	3.0x	32.4x	33.4x	34.4x	\$3	\$3	\$3
TX	\$0.07	10.0%	2.0x	31.4x	32.4x	33.4x	\$2	\$2	\$2
NC	\$0.05	9.2%	2.0x	31.4x	32.4x	33.4x	\$1	\$2	\$2
Other (including acquisitions)	\$0.08	9.2%	0.0x	29.4x	30.4x	31.4x	\$2	\$2	\$2
<b>Water utilities total (ex-Peoples)</b>	<b>\$1.21</b>			<b>32.8x</b>	<b>33.8x</b>	<b>34.8x</b>	<b>\$40</b>	<b>\$41</b>	<b>\$42</b>
<b>Gas Utilities</b>									
Peer Gas P/E		16.3x							
Group EPS '18-'22 CAGR		5.80%							
Peoples Gas Multiple		17.2x							
	2022E EPS ROE embedded								
<b>Peoples Gas</b>	<b>\$0.72</b>	<b>12.1%</b>	<b>3.0x</b>	<b>19.2x</b>	<b>20.2x</b>	<b>21.2x</b>	<b>\$14</b>	<b>\$15</b>	<b>\$15</b>
<b>HoldCo Debt</b>									
(50% Netting out Debt) @ Aqua Parent			-1165	50%			(\$582)	(\$582)	(\$582)
(50% P/E multiple on Interest Exp)			4.3%	50%			(\$553)	(\$511)	(\$598)
50/50 Weighted Drag from HoldCo Drag							(\$1,135)	(\$1,094)	(\$1,180)
Fully Diluted Shares Outstanding							254	254	254
<b>PO</b>							<b>\$49.00</b>	<b>\$52.00</b>	<b>\$53.00</b>
Current Price								\$47.27	
Dividend Yield								2.1%	
<b>Total Potential Return</b>								<b>12.09%</b>	

Source: BofA Global Research, Bloomberg



## Price objective basis & risk

### Essential Utilities (WTRG)

Our price objective is \$52 based on our SOTP approach, applying a peer multiple to the water utility and gas utility, respectively and accounting for expected growth for each sector. These peer multiples are 28.1x and 16.3 vs. 26.9x and 15.9x, respectively, previously. We apply a 3.0x premium to Peoples Gas given the organic growth opportunities, while applying a variety of premiums to its water (2x previously) subsidiaries: +4x to PA, +3x to IL, +2x to OH, +2x for TX, +2x for OH, and no premium for balance of biz. We net out parent debt and parent interest expense associated with parent debt 50/50 weighed basis.

Risks to the downside are acquisition risk, deteriorating regulatory outcomes, and risks from a lower rerating following the diversification into gas.

## Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## North American Utilities, Alternative Energy &amp; LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVERG	EVERG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
<b>NEUTRAL</b>				
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
<b>UNDERPERFORM</b>				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Richard Ciciarelli, CFA
	Northwest Natural Holdings	NWN	NWN US	Richard Ciciarelli, CFA



**North American Utilities, Alternative Energy & LNG Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith

**RSTR**

	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
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**iQmethod<sup>SM</sup> Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt, Less Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase<sup>®</sup> is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

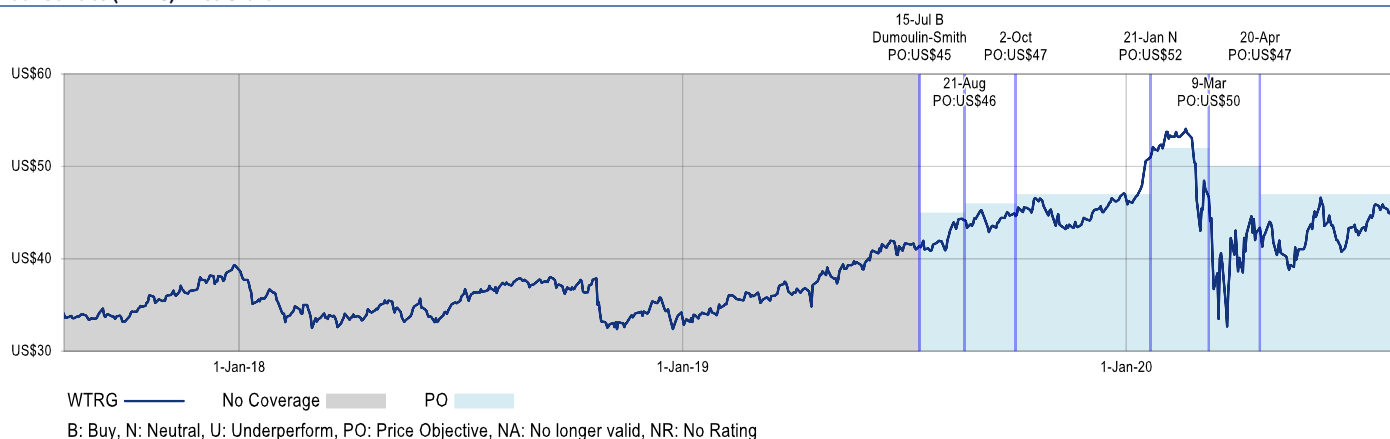
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# Disclosures

## Important Disclosures

### Essential Utilities (WTRG) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Utilities Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	76	51.01%	Buy	56	73.68%
Hold	33	22.15%	Hold	22	66.67%
Sell	40	26.85%	Sell	29	72.50%

### Equity Investment Rating Distribution: Global Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1632	52.21%	Buy	1031	63.17%
Hold	711	22.74%	Hold	444	62.45%
Sell	783	25.05%	Sell	407	51.98%

\* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

\* Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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